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P R 221850Z JUL 76 CITING RUEHCS 1379W 2042330

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DEPARTMENT PASS FRB AND CEA

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E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: CAPACITY UTILIZATION IN THE FRG

1. SUMMARY. THE ONLY MEASURES OF CAPACITY UTILIZATION IN THE FRG ARE PRODUCED BY THE IFO AND DIW (BERLIN) ECONOMIC RESEARCH INSTITUTES. THE FORMER IS BASED ON A SURVEY AND IS THE MOST CURRENT; IN APRIL IT REFLECTED A 82.2 PERCENT RATE OF UTILIZATION--UP 6 PERCENT FROM A YEAR AGO, AND ABOUT 9 PERCENT BELOW THE PREVIOUS MAXIMUM. DIW'S APPROACH

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IS BASED ON A MACROECONOMIC CALCULATION THAT FOR THE

FIRST QUARTER REGISTERED 83.3 PERCENT UTILIZATION OF INDUSTRIAL CAPACITY, SUGGESTING UP TO 10 PERCENT SPARE CAPACITY REMAINS. THIS SERIES (DESCRIBED IN PARA 2B BELOW) IS PROBABLY THE BEST, ESPECIALLY SINCE IT CONTAINS A FORECAST TO THE END OF THE YEAR WHEN AN 89 PERCENT UTILIZATION RATE IS PREDICTED. BOTH DIW AND IFO ARE CONCERNED THAT CAPACITY LIMITS WILL BE APPROACHED IN THE SHORT-TERM FUTURE, ALTHOUGH AT PRESENT THERE IS NO IMMEDIATE PROBLEM. END SUMMARY.

2. CAPACITY UTILIZATION PER DIW.

A. IN AN ARTICLE ENTITLED "UPTURN WITHOUT CAPACITY SQUEEZE" THE BERLIN INSTITUTE (DIW) MADE AN ESTIMATE OF CAPACITY UTILIZATION (WOCHEMBERICHT 28/76 PUBLISHED JULY 15, 1976) WHICH WAS BASED ON ITS OWN MACROECONOMIC ESTIMATIONS OF THE PRODUCTION POTENTIAL OF THE PRIVATE SECTOR (EXCLUDING RENTAL PROPERTY AND GOVERNMENT, BUT INCLUDING SERVICES AND RETAIL TRADE) AS COMPARED WITH ACTUAL PRODUCTION. ON AN ANNUAL BASIS, THEIR CALCULATIONS FOR THE PERIOD 1970 TO 1975, WITH A FORECAST FOR 1976, YIELDED THE FOLLOWING RESULTS:

YEAR	CAPACITY UTILIZATION OF PRODUCTION POTENTIAL (PERCENT)
1970	90.8
1971	89.0
1972	88.1
1973	89.2
1974	86.1
1975	80.4
1976	84.0

NO SECTORAL BREAKOUT WAS GIVEN IN THIS PARTICULAR STUDY. IT WAS OBSERVED THAT WITH A FORECASTED PRODUCTION INCREASE OF 6.5 PERCENT IN 1976, CAPACITY UTILIZATION WILL BE IMPROVED BUT AT 84 PERCENT IT WILL STILL LIE SOME SIX PERCENTAGE POINTS UNDER THE "NORMAL" CAPACITY

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P R 221919Z JUL 76

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UTILIZATION LEVEL. THIS FINDING DIFFERS SOMEWHAT IN
TONE FROM TWO OTHER DIW STUDIES DESCRIBED BELOW.

B. IN ANOTHER PAPER (WOCHEBERICHT 24/76 PUBLISHED
JUNE 16, 1976) THE DIW PRESENTED THE FOLLOWING SECTORAL
CAPACITY UTILIZATION CALCULATIONS FOR THE "MANUFACTURING
INDUSTRY" ON A SEASONALLY ADJUSTED AND QUARTERLY BASIS,
THE LAST THREE QUARTERS OF 1976 BEING, OF COURSE,
FORECASTED FIGURES:

INDUSTRIAL CAPACITY UTILIZATION PER DIW

(PERCENT)

QUARTR 1970 1971 1972 1973 1974 1975 1976 1/

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TOTAL MANUFACTURING INDUSTRY
I 93.6 90.3 87.1 91.5 90.4 80.9 83.3
II 92.9 89.1 87.6 91.7 90.4 78.7 84.7
III 92.0 88.8 88.4 91.8 87.8 79.9 86.5
IV 91.4 86.3 91.5 91.4 83.5 82.3 88.9
BASIC AND PRODUCER GOODS INDUSTRIES
I 95.4 90.6 86.6 92.3 92.4 77.8 80.3
II 94.7 89.0 87.1 92.6 92.8 73.5 81.3
III 93.7 88.0 88.4 92.7 89.7 73.5 83.3
IV 91.3 86.6 91.4 92.6 83.5 77.8 85.1
CAPITAL GOODS INDUSTRIES
I 95.0 90.7 85.3 90.5 89.8 80.7 83.9
II 93.8 89.3 86.0 91.1 89.3 80.1 85.2
III 92.7 88.5 87.0 91.4 86.9 81.5 87.0
IV 93.4 83.3 90.7 91.8 82.4 82.7 90.7
CONSUMER GOODS INDUSTRIES
I 91.4 89.7 91.5 94.7 89.3 82.5 85.3
II 90.5 90.0 91.4 93.4 "-0 79.9 87.1
III 90.5 90.3 92.5 92.5 86.6 83.0 89.1
IV 89.8 90.3 95.4 90.3 83.7 85.4 91.2
FOODSTUFFS, BEVERAGES AND TOCACCO INDUSTRIES
I 86.8 88.7 88.1 88.0 88.8 87.5 87.0
II 88.6 87.4 88.1 88.6 88.7 86.1 88.7
III 87.1 89.7 86.4 89.6 87.9 87.2 89.3
IV 87.0 89.7 87.9 88.6 87.2 88.4 89.9

1/ SECOND, THIRD AND FOURTH QUARTERS 1976 ARE AS
FORECASTED BY DIW.

C. THE 83.3 PERCENT FIRST QUARTER 1976
UTILIZATION COEFFICIENT IN THE FOREGOING TABLE IS
NOT FAR FROM THE APRIL 1976 82.2 PERCENT FIGURE OF
IFO DESCRIBED IN PARAGRAPH 3. IT REPRESENTS AN
APPROXIMATE 5 PERCENT INCREASE IN CAPACITY UTILIZATION
SINCE THE CYCLICAL LOW POINT IN THE SECOND QUARTER
OF 1974. IN 1970 THE MAXIMUM RATE OF UTILIZATION IN
THIS SERIES WAS REACHED AT A FIGURE OF 93.6 PERCENT.
ACCEPTING THIS AS THE MAXIMUM PRACTICAL LIMIT,
ANOTHER 10 PERCENT CAPACITY REMAINS. HOWEVER, DIW
COMMENTS THAT IN THE FOURTH QUARTER, INDUSTRIAL CAPACITY
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AT A FORECASTED 89 PERCENT WILL BE VERY NEAR FULL
UTILIZATION. THE DIFFERENCE IN THE FINDINGS OF THIS
DIW STUDY AND THE ONE DESCRIBED IN PARAGRAPH 2-A IS
ATTRIBUTABLE TO THE FACT THAT THE "PRODUCTION POTENTIAL"
CONCEPT USED THEREIN IS MUCH BROADER AND SUBSUMES THE
"MANUFACTURING INDUSTRY" OF PARAGRAPH 2B. THE
"MANUFACTURING INDUSTRY" ACCOUNTS FOR ABOUT ONE-HALF

OF "PRODUCTION POTENTIAL." THE CALCULATION, THOUGH,
IS MADE IN THE SAME MANNER, I.E., COMPARISON OF DIW'S

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P R 221957Z JUL 76

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MACROECONOMIC ESTIMATE OF PRODUCTION POTENTIAL WITH
ACTUAL PRODUCTION, TAKING INTO ACCOUNT INVESTMENT AND
SCRAPPING. THE CAPITAL GOODS SECTOR, WHICH IS
FORECAST TO HAVE A 90.7 PERCENT UTILIZATION RATE IN
THE FOURTH QUARTER, IS DECEPTIVE, OUR DIW CONTACT TOLD
US. THIS IS BECAUSE IT AGGREGATES MANY SUBSECTORS
WITH WIDELY VARYING UTILIZATION RATES. MACHINERY
MANUFACTURERS, FOR EXAMPLE, CURRENTLY HAVE
A VERY LOW RATE OF "UNDER 80 PERCENT" DIW TOLD US.

AUTOMOBILE MANUFACTURERS, ON THE OTHER HAND, ARE VERY
NEAR CAPACITY LIMITS AT 95 PERCENT. DIW POINTED OUT
TO US THAT IN THIS CAPITAL GOODS SERIES, A 95 PERCENT
UTILIZATION RATE HAD BEEN REACHED IN THE PAST (1970),
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SO THAT EVEN AT YEAR'S END 4.3 PERCENT CAPACITY WOULD
REMAIN TO BE UTILIZED.

D. IT SHOULD BE NOTED THAT DIW IN STILL ANOTHER
ARTICLE (WOCHEBERICHT 18/76 PUBLISHED MAY 6, 1976)
ON CAPACITY UTILIZATION CAME UP WITH A BROAD SECTORAL
BREAKOUT IDENTICAL TO THAT IN PARA 2B, BUT THE NUMBERS
VARIED FOR THE HISTORICAL DATA, E.G., 1975 UTILIZATION
FOR THE TOTAL MANUFACTURING INDUSTRY IN THIS CASE
WAS INDICATED AS BEING 82.5 PERCENT AS COMPARED TO
THE 80.2 PERCENT FIGURE IN THE JUNE 16 ARTICLE. THE
EXPLANATION FOR THE DIFFERENCE GIVEN US BY DIW WAS
THAT THE ANNUAL DATA (PRESENTED BELOW) IS THE RESULT
OF A MORE PROFOUND ANALYSIS, AND INDEED GOES INTO FAR
GREATER SECTORAL DETAIL, WHEREAS THE QUARTERLY DATA
(PARA 2B ABOVE) DOES NOT DISAGGREGATE BEYOND WHAT IS
SHOWN. HOWEVER, WHILE ALL THE FIGURES IN THE ANNUAL
STUDY RUN 2 TO 3 PERCENTAGE POINTS HIGHER, THE
DISTANCE FROM "NORMAL" CAPACITY UTILIZATION (WHICH
IS ALSO HIGHER BY THE SAME MARGIN) IS MORE OR LESS
CONSISTENT IN BOTH STUDIES. WHILE THE DATA IN THE
ANNUAL PRESENTATION IS NO MORE CURRENT THAN LAST YEAR,
IT IS CONSIDERED INTERESTING BECAUSE OF THE SECTORAL
DETAIL IT CONTAINS. THE NARRATIVE IN THIS ARTICLE
STRESSES THE NEED FOR STRONG AND ACCELERATED INVESTMENT
AT THE VERY LATEST IN 1977 IF CAPACITY UTILIZATION
LIMITS ARE NOT TO BE REACHED AND THEREBY RESTRICT
GROWTH. THE TABLE WITH THE 1975 ANNUAL DATA CALCULATED
BY DIW FOLLOWS, ALONG WITH SELECTED EARLIER YEARS OF
HIGH CAPACITY UTILIZATION INCLUDED FOR AN INDICATION
OF MAXIMUM PRACTICAL LIMITS AND BY IMPLICATION THE
REMAINING SPARE CAPACITY.

INDUSTRY CAPACITY UTILIZATION
ANNUAL RATES BY SECTOR

INDUSTRIAL GROUPS 1960 1970 1973 1975

MINING 81.2 94.3 94.7 92.3

COAL 80.9 94.5 94.5 98.8

IRON-ORE 98.1 69.9 86.2 68.7

POTASH AND SALT 93.6 97.5 94.4 82.4

MINERAL OIL AND NATURAL

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GAS PRODUCTION 82.2 95.1 96.1 73.0
OTHER MINING 59.7 89.0 94.8 85.4

MANUFACTURING INDUSTRY 94.7 95.2 94.7 82.1

PRIMARY (BASIC) MATERIAL AND

PRODUCTION GOODS 92.6 93.6 92.8 74.9
STONE AND EARTH 95.5 91.6 93.9 78.0
IRON AND STEEL 90.7 91.9 92.6 78.4
PRODUCTION OF IRON 90.4 89.4 92.3 77.6
IRON, STEEL AND MALLEABLE-
IRON FOUNDRIES 91.0 100.0 91.9 88.0

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P R 221957Z JUL 76

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STEEL DRAWING WORKS AND
COLD ROLLING MILLS 91.4 95.0 94.7 72.3
NON-FERROUS 100.0 92.3 86.4 69.6
CHEMICAL 98.7 95.8 96.1 74.8
PETROLEUM PROCESSING 80.5 95.4 87.0 67.5
RUBBER AND ASBESTOS
PROCESSING 99.6 100.0 87.7 75.3
SAW MILLS AND WOOD PRO-
CESSING 79.1 80.4 87.6 78.1
PULP AND PAPER 87.7 88.5 95.8 82.3

INVESTMENT GOODS INDUSTRIES 96.2 97.7 95.8 83.7
STEEL CONSTRUCTION 89.0 92.0 100.0 90.6

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MACHINERY 96.8 #,00.0 92.5 84.2
OFFICE MACHINERY, ELEC-
TRONIC DATA PROCESSING 90.4 100.0 83.0 57.9
AUTOMOBILE CONSTRUCTION 100.0 96.3 94.0 81.9
SHIPBUILDING 80.9 91.0 90.5 100.0
AIRCRAFT CONSTRUCTION 46.6 79.2 93.1 80.9
ELECTRO-TECHNICAL 99.4 98.3 100.0 84.0
FINE MECHANICS AND OPTICAL
INDUSTRY 85.4 98.9 87.7 75.3
OTHER 98.2 98.7 100.0 88.2

CONSUMER GOODS INDUSTRIES 93.9 92.3 94.9 84.3
FINE CERAMICS 86.5 91.6 93.6 82.7
GLASS 99.1 93.7 100.0 88.5
WOOD PROCESSING 92.1 91.7 100.0 84.3
MUSIC INSTRUMENTS AND
TOYS 98.9 89.8 83.0 77.3
PAPER AND CARDBOARD 93.3 90.7 96.1 85.3
PRINTING AND COPYING 93.0 96.8 95.4 85.1
PLASTICS 99.6 93.6 100.0 78.6
LEATHER 92.5 91.1 78.8 74.7
LEATHER PRODUCING 88.4 79.4 65.6 70.8
LEATHER PROCESSING 95.3 97.9 85.0 82.2
SHOE INDUSTRY 92.9 91.9 80.1 71.9
TEXTILE INDUSTRY 97.8 90.3 92.4 84.5
MANUFACTURING OF
CLOTHING 89.6 92.0 95.0 93.5
FOODSTUFF, BEVERAGES AND
TOBACCO 95.9 95.0 96.4 94.5
MILLS 98.3 92.0 99.8 99.4
OIL MILLS AND MARGARINE 79.6 80.2 86.2 93.6
SUGAR INDUSTRY 84.0 78.1 86.2 89.8

BREWERIES AND MALTHOUSES 95.8 92.5 91.8 91.7

OTHER FOODSTUFF, BEVERAGES

AND TOBACCO 97.9 97.4 98.6 95.4

TOTAL 93.7 95.1 94.7 82.4

3. CAPACITY UTILIZATION PER IFO

A. MUNICH'S IFO INSTITUTE ALSO PUBLISHES A CAPACITY UTILIZATION MEASURE, BUT IT IS ONE BASED ON LIMITED OFFICIAL USE

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A SURVEY OF SAMPLE FIRMS IN VARIOUS INDUSTRIES RATHER THAN THE MORE DETAILED, EXTENSIVE AND PRECISE MACRO-ECONOMIC DIW MEASURE. THE SEASONALLY ADJUSTED AGGREGATE UTILIZATION FIGURE IN APRIL WAS 82.2 PERCENT, WHICH WAS 2 PERCENT HIGHER THAN IN JANUARY, AND 6 PERCENT HIGHER THAN IN APRIL OF LAST YEAR. THE AVERAGE CAPACITY UTILIZATION FIGURE IN THIS SERIES IS AROUND 87 PERCENT; IN 1970 IT REACHED 91 PERCENT-- A HIGH POINT. THE SPARE CAPACITY REMAINING AS OF APRIL THEREFORE WOULD BE ABOUT 9 PERCENT. IN THE APRIL SURVEY, THE CAPITAL GOODS (INVESTITIONSGUETER-BEREICH) SUB-CATEGORY UTILIZATION LEVEL WAS MEASURED AS BEING 81.7 PERCENT, OR 2 PERCENT HIGHER THAN JANUARY. THE "ELEKTROINDUSTRIE" SUB-SUB-CATEGORY WAS HIGHLIGHTED AS BEING WORSE THAN MOST WITH 74.7 PERCENT UTILIZATION. BUSINESS AND OFFICE MACHINES

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P R 221957Z JUL 76
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WERE ON THE HIGH SIDE WITH A 85.5 PERCENT FIGURE. NO
FURTHER BREAKOUT WAS PROVIDED BY IFO.

B. ABOUT A THIRD OF THE RESPONDENT FIRMS IN
AIL 1976 CONSIDERED THEIR EXISTING CAPACITY MORE
THAN SUFFICIENT TO TAKE CARE OF EXPECTED DEMAND OVER
THE NEXT 12 MONTHS. ONLY 3 PERCENT THOUGHT THAT THEIR
CAPACITY WAS INSUFFICIENT IN THIS REGARD. THIS
ESTIMATE OF THE EXISTING CAPACITY AND SALES HAS HAD
A DAMPENING EFFECT ON INVESTMENT PROPENSITY,
COMMENTED IFO.

C. IN A SEPARATE SURVEY OF INVESTMENT PLANS,
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IFO DETERMINED THAT THE PRODUCTION CAPACITY OF INDUSTRY
WILL BE EXPANDED BY ONLY 3 PERCENT IN 1976, THE SAME
AS IN 1975, AND 1 PERCENT LESS THAN WHAT IT WAS IN
1974. IN THE PREVIOUS 20 YEARS IT NEVER DROPPED BELOW
THE 5 PERCENT RATE OF EXPANSION. IFO READS INTO THE
FLATTENING OUT OF PRODUCTION POTENTIAL GROWTH THE
PROBABILITY THAT INDUSTRIAL EMPLOYMENT WILL NOT BE
GENERATED BUT RATHER WILL DECREASE IN THE FUTURE, AS
IT HAS IN RECENT YEARS. THE FLATTENING OF CAPACITY
GROWTH, IFO OBSERVES, IS GENERALIZED ACROSS ALL SECTORS.
IN SOME SECTORS THE INVESTMENT RATE IS SO LOW THAT
CAPACITY IS ACTUALLY SHRINKING, E.G., STONE AND EARTH,
CLOTHING, SHOES, AND BUSINESS AND DATA PROCESSING
MACHINES.
CASH

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Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SURVEYS, ECONOMIC REPORTS, ECONOMIC DATA, ECONOMIC ESTIMATES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 JUL 1976
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BONN12398
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760283-0056
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760734/aaaabddg.tel
Line Count: 547
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2004 by CunninFX>; APPROVED <21 APR 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CAPACITY UTILIZATION IN THE FRG
TAGS: EFIN, ECON, GE
To: STATE TRSY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006